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C O N F I D E N T I A L SECTION 01 OF 02 RPO DUBAI 000031

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E.O. 12958: DECL: 2035/02/04  
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SUBJECT: IRAN TELECOM EXEC GIVES TCI DEAL BACKSTORY

REF: DUBAI RPO 394 (2009)

CLASSIFIED BY: Alan Eyre, Director, DOS, IRPO; REASON: 1.4(B), (D)

¶1. (C) SUMMARY: A senior executive at one of Iran's largest Internet service providers claims that while the IRIG had actively solicited his company's bid for the Telecommunications Company of Iran (TCI), immediately prior to the awarding of the contract in September 2009 IRIG officials requested the company to withdraw the bid so it could be awarded to an IRGC-affiliated consortium. The executive said the telecommunications sector in Iran has great business potential, but in reality the telecoms business is limited by the IRIG's unwillingness to privatize infrastructure and caps on the number of customers receiving service. END SUMMARY.

¶2. (C) Note: This cable focuses on an Iran telecommunication executive's insights on the TCI sale and its implications for the telecom sector. A subsequent cable will focus on his comments on the state of broadband in Iran, business prospects for private-sector telecom providers, and the Internet experience for the 'average' Iranian. End Note.

WE WANT YOU, WE NEED YOU...

¶3. (C) IRPO EconOff recently met a senior executive from the 'Pishgaman Kavir Yazd' Internet Service Providers, a subsidiary of Pishgaman Kavir Yazd Cooperative (PKY). PKY was disqualified in the September 2009 TCI 'privatization' in which Iran's largest telecommunications company was purchased by a quasi-government entity with strong connections to the IRGC (reftel). According to the PKY executive, the IRIG first approached PKY and issued 'a formal request' to bid more than a year prior to the privatization. Throughout the process, the company received strong signals the government was looking to divest to a strong private-sector entity, and so it made a major investment in time, effort and financing in preparing its bid for TCI, with the objective of acquiring ownership of some of Iran's Internet infrastructure and expanding its business (NOTE: PKY is one of the largest of Iran's 13 ISPs. Unlike ISPs in the United States, ISPs in Iran do not own any of the infrastructure on which their service runs. ISPs essentially market ADSL service and rent space on the government network (TCI) to carry Internet traffic. Our contact said the government network routes all traffic to Tehran before it is sent to an international gateway. END NOTE).

¶4. (C) The government's courting of PKY for more than a year led company executives to believe that the government was serious about privatization. As a result, the company spent USD 1.5 million and devoted considerable other resources during a two-month period to prepare their bid. It included securitization of the USD 8 billion purchase price as well as a down payment of USD 275 million.

...ON SECOND THOUGHT, NOT SO MUCH

15. (C) According to our contact, high hopes of a "real privatization" were dashed when PKY's CEO was called in by the government's privatization commission on September 25, two days prior to the scheduled privatization, and was asked to note bid. PKY's CEO refused, on the grounds the company's 5,000 shareholders would not accept a sudden withdrawal without good reason given the amount of time and capital invested in preparing the bid. Government officials offered the CEO a written statement indicating that PKY was disqualified from bidding for security reasons, to present to shareholders. Bidding was officially opened on September 27 and within 30 minutes, the IRGC-backed Etamad-e Mobin won the bid with a down-payment price of USD 175 million (reftel). According to the PKY executive, Etamad-e Mobin's down-payment was approximately USD 100 million less than what PKY had submitted in its bid.

16. (C) He said PKY is now using the disqualification letter and the previous written endorsement to sue the government in an Iranian court for USD 15 million in damages. According to our contact, the court is sympathetic and the government has indicated that the company will be compensated. Since the privatization, Etamad-e Mobin has contacted PKY regularly for assistance in managing TCI. PKY has declined and has decided to re-focus its energies on the mobile market.

#### THE FUTURE

17. (C) Asked why PKY was not interested in helping manage TCI, our contact made clear that the major benefit of owning TCI would have

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been to own the infrastructure. As such, managing the company would only expose PKY to political risk with no real business gain. Instead, the executive said the company is launching a venture into the mobile business and looking at ways to further develop its ISP infrastructure within the government's restrictive framework of absolute ownership of the fixed-line network (septel). PKY's goal in both endeavors is to own infrastructure. In the case of mobile, the executive said PKY is teaming with Tata Communications from India (also Parsi-lead, like PKY) to acquire a mobile license in Iran. The company would build its own mobile network, something he believes is plausible given that one foreign mobile player already operates in Iran. The executive said he had high hopes that the government will provide the mobile license partly in compensation for the TCI debacle.

18. (C) COMMENT: The IRIG's handling of the TCI privatization and its restrictive policies on ISPs make it clear the government's aim for the foreseeable future is to keep a firm grip on Iran's Internet and fixed-line infrastructure, as well as to slow the penetration of broadband Internet access, in the interest of national security. Despite indications that there were at least some elements inside the government who favored privatizing the country's telephone network, the decision was made in favor of leaving it under the control of a "trustworthy" quasi-governmental consortium that will allow guard state security and further enhance the IRGC's economic interests. END COMMENT.  
EYRE